

Company Registration No. 04345895 (England and Wales)

**ALIGN TECHNOLOGY UK LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

# ALIGN TECHNOLOGY UK LIMITED

## COMPANY INFORMATION

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|                          |  |
|--------------------------|--|
| <b>Directors</b>         | R E George<br>S Beard<br>J Tandy   |
| <b>Company number</b>    | 04345895   |
| <b>Registered office</b> | 2800 The Crescent<br>Solihull Parkway<br>Birmingham Business Park<br>Solihull<br>B37 7YL |
| <b>Auditor</b>           | Alliotts<br>Imperial House<br>8 Kean Street<br>London<br>WC2B 4AS                        |

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# ALIGN TECHNOLOGY UK LIMITED

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# ALIGN TECHNOLOGY UK LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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The directors present the strategic report for the year ended 31 December 2018.

### Fair review of the business

Align Technology is a global medical device company engaged in the design, manufacture and marketing of the Invisalign system, the most advanced clear aligner system in the world, and iTero intraoral scanners and services for orthodontic and restorative dentistry.

The orthodontic market in the UK represents approximately 75,000 case starts annually. Align's share of orthodontic case starts remains underpenetrated and the company's growth reflects continued adoption of clear aligner therapy. The clear aligner market is highly competitive, with a number of clear aligner companies operating in the country, many of whom spend considerable budgets on advertising to consumers. The Invisalign system continues to be adopted by the British doctors and has been a popular choice among the patients who have general high awareness of available teeth straightening solutions and who continue to search for Invisalign treatment by name. However, as the number of clear aligner competitors increases, it is essential that the company continue to invest in new technological enhancements and solutions, as well as consumer demand creation programs and advertising.

### Principal risks and uncertainties

The risks and uncertainties that relates to the future profitability of the business are:

- Overall economic trading conditions
- Changes in the competitive landscape

Our operating results depend to a significant extent on our ability to market and develop our products. The life cycles of our products are difficult to estimate due, in part, to the effect of future product enhancements and competition. Our inability to successfully develop and market our products as a result of competition or other factors would have a material adverse effect on our business, financial condition and results of operations.

### Development and performance

The Result of the year, as set out on page 5, shows a profit on ordinary activities before tax of £1.275m (2017: £0.844m).

For the 2017 comparison number, the share based incentive adjustment has been excluded from the KPIs as it is a notional entry to account for the capital contribution.

The directors are pleased with the level of performance for the year.

### Key performance indicators

The Company has made significant progress throughout the year in relation to key elements of our strategy. The Board monitors the progress of the company with reference to the following KPIs:

|                               | 2018 | 2017 |
|-------------------------------|------|------|
| Revenue % increase            | 48%  | 62%  |
| Gross Profit as % of Turnover | 7.4% | 7.3% |

Effective 2018, gross profit includes share base incentive expenses.

The Company's innovative products and technology and focus on providing Invisalign doctors with exceptional hands-on customer support, has enabled the company to continuously outpace the growth rate of the underlying market for orthodontic treatment and increase its performance. The company will continue to drive growth for its business by gaining share of the existing orthodontic market as well as by expanding the market for clear Aligners treatment.

# **ALIGN TECHNOLOGY UK LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2018***

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### **Future developments**

The company will continue to invest in its local infrastructure to support its growth aspirations for the future.

On behalf of the board

J Tandy

**Director**

27 September 2019

# ALIGN TECHNOLOGY UK LIMITED

## DIRECTORS' REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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The directors present their annual report and financial statements for the year ended 31 December 2018.

### Principal activities

The principal activities of the company continued to be Sales and Marketing support to the UK market, together with the provision of a Customer Care function and a Clinical Support function.

### Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

R E George  
S Beard  
J Tandy

### Results and dividends

The results for the year are set out on page 6.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

### Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

J Tandy  
**Director**  
27 September 2019

# ALIGN TECHNOLOGY UK LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF ALIGN TECHNOLOGY UK LIMITED

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#### Opinion

We have audited the financial statements of Align Technology UK Limited (the 'company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

# **ALIGN TECHNOLOGY UK LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF ALIGN TECHNOLOGY UK LIMITED**

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#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Christopher Mantel (Senior Statutory Auditor)**  
for and on behalf of Alliotts

27 September 2019

**Chartered Accountants**  
**Statutory Auditor**

Imperial House  
8 Kean Street  
London  
WC2B 4AS



# ALIGN TECHNOLOGY UK LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

|   |           | 2018         | 2017             |
|---|-----------|--------------|------------------|
|   | Notes     | £            | as restated<br>£ |
| <b>Revenue</b>                              | <b>3</b>  | 17,187,838   | 11,508,908       |
| Administrative expenses                     |           | (15,915,620) | (12,471,539)     |
| Other operating expenses                    |           | (1,853)      | (2,304)          |
| <b>Operating profit/(loss)</b>              | <b>4</b>  | 1,270,365    | (964,935)        |
| Investment income                           | <b>8</b>  | 4,542        | 218              |
| Finance costs                               | <b>9</b>  | -            | (186)            |
| <b>Profit/(loss) before taxation</b>        |           | 1,274,907    | (964,903)        |
| Tax on profit/(loss)                        | <b>10</b> | 811          | (166,537)        |
| <b>Profit/(loss) for the financial year</b> |           | 1,275,718    | (1,131,440)      |

The Income Statement has been prepared on the basis that all operations are continuing operations.

# ALIGN TECHNOLOGY UK LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

|  |       | 2018             |                         | 2017<br>as restated |                         |
|--|-------|------------------|-------------------------|---------------------|-------------------------|
|  | Notes | £                | £                       | £                   | £                       |
| <b>Non-current assets</b>                    |       |                  |                         |                     |                         |
| Property, plant and equipment                | 11    |                  | 202,316                 |                     | 124,457                 |
| <b>Current assets</b>                        |       |                  |                         |                     |                         |
| Trade and other receivables                  | 12    | 3,560,309        |                         | 2,020,584           |                         |
| Cash and cash equivalents                    |       | 4,465,040        |                         | 2,350,011           |                         |
|  |       | <u>8,025,349</u> |                         | <u>4,370,595</u>    |                         |
| <b>Current liabilities</b>                   | 13    | (4,527,119)      |                         | (2,069,413)         |                         |
| <b>Net current assets</b>                    |       |                  | <u>3,498,230</u>        |                     | <u>2,301,182</u>        |
| <b>Total assets less current liabilities</b> |       |                  | <u>3,700,546</u>        |                     | <u>2,425,639</u>        |
| <b>Provisions for liabilities</b>            | 14    |                  | -                       |                     | (811)                   |
| <b>Net assets</b>                            |       |                  | <u><u>3,700,546</u></u> |                     | <u><u>2,424,828</u></u> |
| <b>Equity</b>                                |       |                  |                         |                     |                         |
| Called up share capital                      | 17    |                  | 2                       |                     | 2                       |
| Retained earnings                            |       |                  | <u>3,700,544</u>        |                     | <u>2,424,826</u>        |
| <b>Total equity</b>                          |       |                  | <u><u>3,700,546</u></u> |                     | <u><u>2,424,828</u></u> |

The financial statements were approved by the board of directors and authorised for issue on 27 September 2019 and are signed on its behalf by:

J Tandy  
Director

Company Registration No. 04345895

# ALIGN TECHNOLOGY UK LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

|   | Share capital | Capital contribution reserve | Retained earnings | Total       |
|---|---------------|------------------------------|-------------------|-------------|
|   | £             | £                            | £                 | £           |
| <b>As restated for the period ended 31 December 2017:</b> |               |                              |                   |             |
| <b>Balance at 1 January 2017</b>                          | 2             | -                            | 1,747,580         | 1,747,582   |
| <b>Year ended 31 December 2017:</b>                       |               |                              |                   |             |
| Loss and total comprehensive income for the year          | -             | -                            | (1,131,440)       | (1,131,440) |
| Transfers   | -             | (1,808,686)                  | 1,808,686         | -           |
| Capital contribution                                      | -             | 1,808,686                    | -                 | 1,808,686   |
| <b>Balance at 31 December 2017</b>                        | 2             | -                            | 2,424,826         | 2,424,828   |
| <b>Year ended 31 December 2018:</b>                       |               |                              |                   |             |
| Profit and total comprehensive income for the year        | -             | -                            | 1,275,718         | 1,275,718   |
| <b>Balance at 31 December 2018</b>                        | 2             | -                            | 3,700,544         | 3,700,546   |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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### 1 Accounting policies

#### Company information

Align Technology UK Limited is a private company limited by shares incorporated in England and Wales. The registered office is 2800 The Crescent, Solihull Parkway, Birmingham Business Park, Solihull, B37 7YL. The principal place of business is 6th Floor, Cannongate House, 62-64 Cannongate Street, London, EC4N 6AE.

#### 1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Align Technology Inc, incorporated in the United States. These consolidated financial statements are available from its registered office at 2820, Orchard Parkway, San Jose California, 95134, United States.

#### 1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### 1.3 Revenue

Income is recognised in an accordance with a "cost-plus" service agreement with the Group to which the company belongs. Income is recognised based on a formula that is applied to costs incurred.

#### 1.4 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

|                                |                            |
|--------------------------------|----------------------------|
| Land and buildings Leasehold   | Over the term of the lease |
| Fixtures, fittings & equipment | 20% straight line          |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

#### 1.5 Impairment of non-current assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 1.6 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.7 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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### 1 Accounting policies

(Continued)

#### **Basic financial assets**

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

#### **Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### **Impairment of financial assets**

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

#### **Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

#### **Classification of financial liabilities**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### **Basic financial liabilities**

Basic financial liabilities, including trade and other payables, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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### 1 Accounting policies

(Continued)

#### **Other financial liabilities**

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

#### **Derecognition of financial liabilities**

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

### 1.8 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

### 1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

#### **Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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### 1 Accounting policies

(Continued)

#### 1.10 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

#### 1.11 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

#### 1.12 Share-based payments

For cash-settled share-based payments, a liability is recognised for the goods and services acquired, measured initially at the fair value of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

#### 1.13 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

#### 1.14 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

### 2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

#### Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### Tangible assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Judgement is required to determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.



# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 3 Revenue

An analysis of the company's revenue is as follows:

|  | 2018<br>£  | 2017<br>£  |
|--|------------|------------|
| <b>Revenue analysed by class of business</b> |            |            |
| Provision of services                        | 17,187,838 | 11,508,908 |

|                                  | 2018<br>£ | 2017<br>£ |
|----------------------------------|-----------|-----------|
| <b>Other significant revenue</b> |           |           |
| Interest income                  | 4,542     | 218       |

|  | 2018<br>£  | 2017<br>£  |
|--|------------|------------|
| <b>Revenue analysed by geographical market</b> |            |            |
| United Kingdom                                 | 17,187,838 | 11,508,908 |

### 4 Operating profit/(loss)

|   | 2018<br>£ | 2017<br>£ |
|---|-----------|-----------|
| Operating profit/(loss) for the year is stated after charging:                            |           |           |
| Exchange losses   | 1,853     | 5,694     |
| Fees payable to the company's auditor for the audit of the company's financial statements | 9,000     | 9,000     |
| Depreciation of owned property, plant and equipment                                       | 106,579   | 59,550    |
| Share-based payments  | 1,957,538 | 1,808,686 |
| Operating lease charges   | 507,102   | 414,243   |

Exchange differences recognised in profit or loss during the year, except for those arising on financial instruments measured at fair value through profit or loss, amounted to £1,853 (2017 - £5,694).

### 5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

|                          | 2018<br>Number | 2017<br>Number |
|--------------------------|----------------|----------------|
| Sales and administration | 81             | 61             |
| Management               | 3              | 3              |
|                          | 84             | 64             |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 5 Employees (Continued)

Their aggregate remuneration comprised:

|                       | 2018<br>£        | 2017<br>£        |
|-----------------------|------------------|------------------|
| Wages and salaries    | 7,292,426        | 6,252,228        |
| Social security costs | 2,098,860        | 1,513,009        |
| Pension costs         | 190,983          | 89,385           |
|                       | <u>9,582,269</u> | <u>7,854,622</u> |

### 6 Directors' remuneration

|   | 2018<br>£ | 2017<br>£      |
|---|-----------|----------------|
| Remuneration for qualifying services                          | -         | 400,151        |
| Company pension contributions to defined contribution schemes | -         | 3,694          |
|   | <u>-</u>  | <u>403,845</u> |

Remuneration disclosed above include the following amounts paid to the highest paid director:

|   | 2018<br>£  | 2017<br>£      |
|---|------------|----------------|
| Remuneration for qualifying services                          | n/a        | 400,151        |
| Company pension contributions to defined contribution schemes | n/a        | 3,694          |
|   | <u>n/a</u> | <u>403,845</u> |

As total directors' remuneration was less than £200,000 in the current year, no disclosure is provided for that year.

## ALIGN TECHNOLOGY UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

#### 7 Share based incentives

As of 31 December 2018 and 31 December 2017, the company did not have any equity-settled plans or transactions. However, the company's ultimate parent Align Technology Inc, a company listed in the US Stock exchange issued the 'Amended and Restated 2005 Incentive Plan' based on which the parent provided the employees an opportunity to take part in an employee incentive scheme which included issue of restricted stock units and stock options.

Under this plan, the company's ultimate parent issues shares of Align Technology Inc upon vesting of restricted stock units (RSUs) or performance stock units (PSU). The issuance of shares and cash received upon exercise or sale is undertaken solely by Align Technology Inc. Until the previous year, these incentives did not have any impact on the company's shareholder's equity or cash flows. Therefore, these have been treated as capital contributions from the parent during the year ended 31 December 2017, having no impact on the reserves of the company.

However, from the year ended 31 December 2018, the UK company has started to reimburse the US company, the extent of share based incentive relating to the employees in its payroll, calculated in accordance with the intrinsic fair value of the units as on the date of grant, apportioned over the vesting period. The expense payable for the year 2018 amounted to £1,957,538.

Align Technology Inc's relevant employee benefit plans are summarized as follows:

##### (1) RSU

RSUs granted under this plan vest over four years, based on continued employment, and are settled upon vesting in shares of Align Technology Inc's common stock for on a one-for-one basis. The fair value is the listed market price on the grant date of Align Technology Inc's stock on NASDAQ (US stock exchange).

##### (2) PSU

PSUs granted under this plan vest over a period of three years commencing from the date of grant based on continued employment. Any market units that vest in accordance with this plan, will be paid to participant in whole shares at the end of the vesting period. The number of market stock units in which the participant may vest will depend upon Align Technology Inc's Stock price performance as compared to the NASDAQ Composite price performance for the performance period.

#### 8 Investment income

|                           | 2018              | 2017              |
|---------------------------|-------------------|-------------------|
|                           | £                 | £                 |
| Interest income           |                   |                   |
| Interest on bank deposits | 4,542             | 218               |
|                           | <u>          </u> | <u>          </u> |

#### 9 Finance costs

|                | 2018              | 2017              |
|----------------|-------------------|-------------------|
|                | £                 | £                 |
| Other interest | -                 | 186               |
|                | <u>          </u> | <u>          </u> |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 10 Taxation

|   | 2018<br>£    | 2017<br>£       |
|---|--------------|-----------------|
| <b>Current tax</b>  |              |                 |
| UK corporation tax on profits for the current period                | -            | 185,186         |
| Adjustments in respect of prior periods                             | -            | (19,239)        |
| Tax relating to prior year adjustments recognised in profit or loss | -            | 13,695          |
|   | <u>-</u>     | <u>179,642</u>  |
| <b>Deferred tax</b>   |              |                 |
| Origination and reversal of timing differences                      | (811)        | (13,105)        |
|   | <u>(811)</u> | <u>(13,105)</u> |
| <b>Total tax (credit)/charge</b>                                    | <u>(811)</u> | <u>166,537</u>  |

The actual (credit)/charge for the year can be reconciled to the expected charge/(credit) for the year based on the profit or loss and the standard rate of tax as follows:

|   | 2018<br>£        | 2017<br>£        |
|---|------------------|------------------|
| Profit/(loss) before taxation   | <u>1,274,907</u> | <u>(964,903)</u> |
| Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.00%) | 242,232          | (183,332)        |
| Tax effect of expenses that are not deductible in determining taxable profit                                  | 31,779           | 24,700           |
| Unutilised tax losses carried forward   | 1,246,033        | -                |
| Effect of change in corporation tax rate  | -                | 5,021            |
| Capital allowances  | (33,870)         | (10,398)         |
| Schedule 23 deduction   | (1,486,174)      | -                |
| Timing differences  | (811)            | (13,105)         |
|   | <u>-</u>         | <u>343,651</u>   |
| <b>Taxation (credit)/charge for the year</b>  | <u>(811)</u>     | <u>166,537</u>   |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 11 Property, plant and equipment

|                                    | Land and buildings<br>Leasehold<br>£ | Fixtures, fittings<br>& equipment<br>£ | Total<br>£ |
|------------------------------------|--------------------------------------|--|------------|
| <b>Cost</b>                        |                                      |  |            |
| At 1 January 2018                  | 208,416                              | 84,035                                 | 292,451    |
| Additions                          | 5,309                                | 179,129                                | 184,438    |
| At 31 December 2018                | 213,725                              | 263,164                                | 476,889    |
| <b>Depreciation and impairment</b> |                                      |  |            |
| At 1 January 2018                  | 133,432                              | 34,562                                 | 167,994    |
| Depreciation charged in the year   | 52,364                               | 54,215                                 | 106,579    |
| At 31 December 2018                | 185,796                              | 88,777                                 | 274,573    |
| <b>Carrying amount</b>             |                                      |  |            |
| At 31 December 2018                | 27,929                               | 174,387                                | 202,316    |
| At 31 December 2017                | 74,984                               | 49,473                                 | 124,457    |

### 12 Trade and other receivables

|   | 2018<br>£ | 2017<br>£ |
|---|-----------|-----------|
| <b>Amounts falling due within one year:</b> |           |           |
| Corporation tax recoverable                 | 119,705   | -         |
| Amounts owed by group undertakings          | 3,232,020 | 1,869,248 |
| Other receivables                           | 192,652   | 121,929   |
| Prepayments and accrued income              | 15,932    | 29,407    |
|   | 3,560,309 | 2,020,584 |

### 13 Current liabilities

|                                    | 2018<br>£ | 2017<br>£ |
|------------------------------------|-----------|-----------|
| Trade payables                     | 81,191    | 40,522    |
| Amounts owed to group undertakings | 1,903,933 | -         |
| Corporation tax                    | -         | 119,434   |
| Other payables                     | 25,024    | 44,160    |
| Accruals and deferred income       | 2,516,971 | 1,865,297 |
|                                    | 4,527,119 | 2,069,413 |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 14 Provisions for liabilities

|                          | Notes | 2018<br>£         | 2017<br>£         |
|--------------------------|-------|-------------------|-------------------|
| Deferred tax liabilities | 15    | -                 | 811               |
|                          |       | <u>          </u> | <u>          </u> |

### 15 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

|                                | Liabilities<br>2018<br>£ | Liabilities<br>2017<br>£ |
|--------------------------------|--------------------------|--------------------------|
| <b>Balances:</b>               |                          |                          |
| Accelerated capital allowances | -                        | 811                      |
|                                | <u>          </u>        | <u>          </u>        |
| <b>Movements in the year:</b>  |                          | 2018<br>£                |
| Liability at 1 January 2018    |                          | 811                      |
| Credit to profit or loss       |                          | (811)                    |
|                                |                          | <u>          </u>        |
| Liability at 31 December 2018  |                          | -                        |
|                                |                          | <u>          </u>        |

### 16 Retirement benefit schemes

|   | 2018<br>£         | 2017<br>£         |
|---|-------------------|-------------------|
| <b>Defined contribution schemes</b>                                 |                   |                   |
| Charge to profit or loss in respect of defined contribution schemes | 190,983           | 89,385            |
|   | <u>          </u> | <u>          </u> |

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

### 17 Share capital

|                               | 2018<br>£         | 2017<br>£         |
|-------------------------------|-------------------|-------------------|
| <b>Ordinary share capital</b> |                   |                   |
| <b>Issued and fully paid</b>  |                   |                   |
| 2 Ordinary Shares of £1 each  | 2                 | 2                 |
|                               | <u>          </u> | <u>          </u> |

# ALIGN TECHNOLOGY UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 18 Operating lease commitments

#### Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|                            | 2018<br>£        | 2017<br>£     |
|----------------------------|------------------|---------------|
| Within one year            | 93,676           | 66,684        |
| Between two and five years | 1,446,761        | 15,792        |
| In over five years         | 1,224,300        | -             |
|                            | <u>2,764,737</u> | <u>82,476</u> |

### 19 Related party transactions

#### Transactions with related parties

During the year the company entered into the following transactions with related parties:

The following amounts were outstanding at the reporting end date:

|  | 2018<br>£        | 2017<br>£ |
|--|------------------|-----------|
| <b>Amounts due to related parties</b>  |                  |           |
| Entities with control, joint control or significant influence over the company | <u>1,903,933</u> | <u>-</u>  |

The following amounts were outstanding at the reporting end date:

|  | 2018<br>£        | 2017<br>£        |
|--|------------------|------------------|
| <b>Amounts due from related parties</b>  |                  |                  |
| Entities with control, joint control or significant influence over the company | <u>3,232,020</u> | <u>1,869,248</u> |

The company has taken advantage of the exemption available in Paragraph 33.1A of FRS102 whereby it has not disclosed transactions with other companies that are wholly owned within the Group.

The balances due with the parent entities are interest-free, unsecured and repayable on demand.

### 20 Ultimate controlling party

The immediate parent company is Align Technology BV, a company registered in the Netherlands.

The financial statements are consolidated into the ultimate parent company, Align Technology Inc, which is registered in the United States of America. Copies of the financial statements can be obtained from Align Technology Inc, 2820, Orchard Parkway, San Jose, California, 95134, United States.

No one person has overall control.

## ALIGN TECHNOLOGY UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

#### 21 Prior period adjustment

##### Reconciliation of changes in equity

|   | 1 January<br>2017<br>£ | 31 December<br>2017<br>£ |
|---|------------------------|--------------------------|
| Equity as stated before and after prior period adjustment | 1,747,582              | 2,424,828                |

##### Reconciliation of changes in profit/(loss) for the previous financial period

|                                  | Notes | 2017<br>£   |
|----------------------------------|-------|-------------|
| Profit as previously reported    |       | 677,246     |
| <b>Adjustments to prior year</b> |       |             |
| Share based payment expense      |       | (1,808,686) |
| Loss as adjusted                 |       | (1,131,440) |

##### Notes to reconciliation

##### Share based incentive adjustment

As detailed in Note 7, prior period restatement accounting for the share based incentive expense borne by the US parent is treated as as 'capital contribution'.



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